Chapter 4 Consumer Mathematics: Taxation

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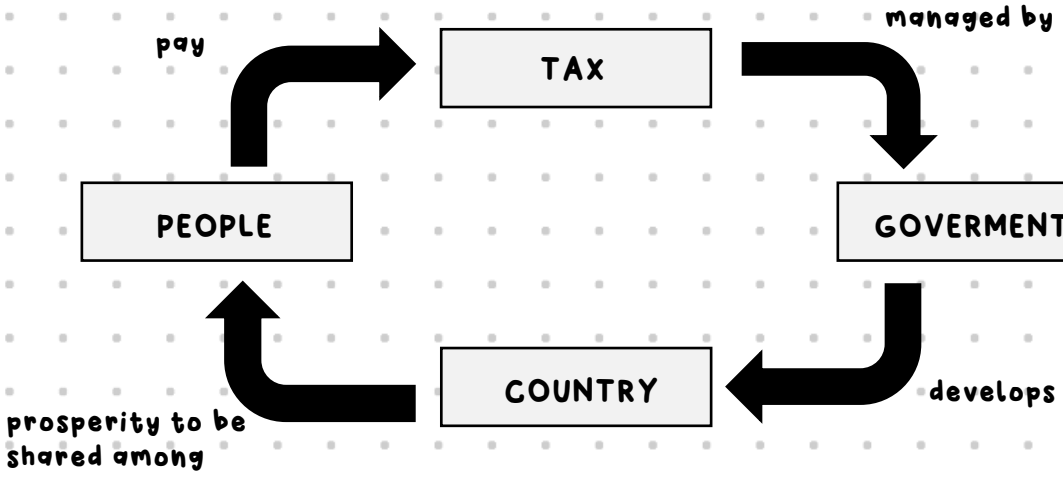
PURPOSE OF TAXATION

- Taxation is a process of revenue (money) collection from individuals or companies, for use in the country's development, by providing various facilities (for example, education, healthcare, national security, welfare) for the well-being of all citizens



- There are 4 purposes of taxation: -

1. SOURCE OF GOVERNMENT REVENUE
   - To govern the country
   - To finance the country's development projects
   - To redistribute income to address inequality in the society
2. GOVERNMENT POLICY IMPLEMENTATION TOOL
   - Tax can be levied in line with government policy, so that the policy is more effective
   - For example, tax relief for parent's medical expenses, in order to cultivate caring community
   - For example, real property gains tax is imposed when the government wants to reduce excessive property investment activities
3. CONTROL OF SALES OF GOODS OR SERVICES
   - Taxes can be levied on certain goods or services so that people are discouraged from buying certain goods or services
   - For example, tobacco tax, alcohol tax and gambling tax
4. FINANCIAL TOOL TO STABILISE THE ECONOMY
   - In some cases, taxation is one of the financial tools for the government to stabilise the economy

- TAX REVENUE ARE USED FOR: -
  - Education
  - Healthcare
  - Social welfare
  - Infrastructure and Public facilities
  - Agriculture and Industrial
  - National security and Defence
  - Development

TYPES OF TAX AND THE CONSEQUENCES OF TAX EVASION

INCOME TAX

- The tax imposed on income earned by a salaried individual or a company operating in Malaysia
- Each salaried individual and profitable company is required to register as a taxpayer, assess annual income and pay income tax annually
- Report all income, tax exemption, tax reduction, tax relief and tax rebate by submitting Income Tax Return Form, ITRF (in Malay Borang Nyata Cukai Pendapatan, BNCP), either by form, or electronically via internet (ezHasil)
- Self-Assessment System is implemented. Taxpayers should make self-assessment, keep records and pay a certain amount of tax

SELF-ASSESSMENT (MAKING OWN INCOME TAX CALCULATION)

- Assessment is made for the previous year, for example assessment for year 2019 is made in year 2020
- Deadline for submission of ITRF and tax payment for an individual who does not own a business (BE form) is 30 April, while for an individual who owns a business (B form) is 30 June

KEEP RECORDS

- All documents such as forms and original copy of receipts must be kept for 7 years

PAYMENT

- Tax payment can be made in a lump sum to the Inland Revenue Board (IRB) or through monthly tax deduction (PCB)

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- WHO IS COLLECTING?
  - Inland Revenue Board (IRB)
- CONSEQUENCES OF TAX EVASION

TAX EVASION	PENALTY	LEGAL ACT
Failure to submit annual report if eligible for tax payment	Fine of RM200 up to RM20 000 or imprisonment of not exceeding 6 months or both	Income Tax Act 1967 (Act 53) Section 112(1)
Make omission on any income in ITRF	Fine of RM1 000 up to RM10 000 and penalty of 200% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 113(1)(a)
Give incorrect information that affects income tax payable for own or another person	Fine of RM1 000 up to RM10 000 and penalty of 200% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 113(1)(b)
Evade intentionally or assist other person to evade tax	Fine of RM1 000 up to RM20 000 or imprisonment of not exceeding 3 years or both and penalty of 300% of the amount of tax which has been undercharged	Income Tax Act 1967 (Act 53) Section 114(1)

ROAD TAX

- The tax levied on road user who owns vehicles including motorcycle and car.
- Vehicle owner must pay road tax before the existing road tax expires.
- The expiry date is printed on road tax receipt (Lesen Kenderaan Motor) that must be affixed or shown on the vehicle.
- Vehicle with expired road tax of more than one year must be sent to Puspakom for inspection.
- Puspakom inspection report and tax payment must be submitted to Road Transport Department in order to reactivate the road tax.
- If the road tax is not paid, the vehicle will not be allowed on the road.

- WHO IS COLLECTING?
  - Road Transport Department
- CONSEQUENCES OF TAX EVASION

TAX EVASION	PENALTY	LEGAL ACT
Continually using a vehicle without valid road tax	Fine of not exceeding RM2000	Road Transport Act 1987 (Act 333) Section 23(1)

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PROPERTY ASSESSMENT TAX

- The tax levied on all holdings or properties (residential houses, industrials, commercial buildings and vacant lands) in order to cover municipal expenses such as rubbish collection, drain cleaning and maintaining public parks
- WHO IS COLLECTING?
  - Local authority, such as municipal council or district council
- CONSEQUENCES OF TAX EVASION

TAX EVASION	ACTION	LEGAL ACT
Does not pay assessment tax within the designated period	Notice in Form E will be issued	Local Government Act 1976 (Act 171) Section 147 and 148
Does not pay assessment tax within 15 days after the notice issued	Detention warrant in Form F will be issued and portable property could be seized	Local Government Act 1976 (Act 171) Section 147 and 148

QUIT RENT

- The tax levied on the owner of agricultural land, corporate land and land with building.
- This tax is interpreted as Lease under Section 5 of National Land Code 1965
- WHO IS COLLECTING?
  - State land authority, which is State Land Office
- CONSEQUENCES OF TAX EVASION

TAX EVASION	ACTION	LEGAL ACT
Does not pay assessment tax within the designated period	Notice of claim in Form 6A will be issued	National Land Code 1965 Section 97
Does not pay quit rent within the stated period in the notice of claim	The land can be seized	National Land Code 1965 Section 100

SALES AND SERVICE TAX

- Sales and Service Tax enforced on 1 September 2018, consists of two parts, namely sales tax and service tax
- Sales tax is a tax levied only once on various taxable goods at the stage of manufacturing or during importation.
- Service tax is a tax levied on consumer who receives taxable services, such as hotel services, insurance and takaful, food and beverages preparation, telecommunications and credit cards.
- Manufacturers or importers with sales value of taxable goods exceeding RM500 000 per annum shall register under Sales Tax Act 2018

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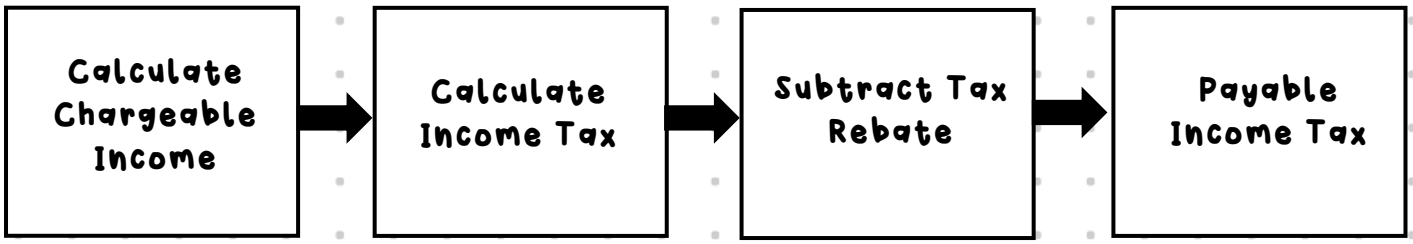
- Service providers with value of taxable services exceeding threshold of RM500 000 per annum as well as food and beverage service providers with value of taxable services exceeding threshold of RM1 500 000 per annum, shall register under Service Tax Act 2018
- Tax collection is a responsibility of service providers on the government's behalf
- Service tax must be collected from the customer who receives the services
- Service tax collected by the service providers will be paid to the government within a designated period.
- WHO IS COLLECTING?
  - Royal Malaysian Customs Department (RMCD)
- CONSEQUENCES OF TAX EVASION

TAX EVASION	PENALTY	LEGAL ACT
Evade tax intentionally or assist other person to evade tax	First offence: fine of 10 times up to 20 times the amount of sales tax or imprisonment of not exceeding 5 years or both	Sales Tax Act 2018 (Act 806) Section 86(1) and 86(2)
	Second or subsequent offence: fine of 20 times up to 40 times the amount of sales tax or imprisonment of not exceeding 7 years or both	
The amount of tax evasion that cannot be ascertained	Fine of RM50 000 up to RM500 000 or imprisonment of not exceeding 7 years or both	Sales Tax Act 2018 (Act 806) Section 86(3)
The party who assists in preparation of false tax statements	Fine of RM2 000 up to RM20 000 or imprisonment of not exceeding 3 years or both	Sales Tax Act 2018 (Act 806) Section 86(4)
Similar penalties for tax evasion also stipulated in Service Tax Act 2018 (Act 807) Section 71		

CALCULATE INCOME TAX



CHARGEABLE INCOME

- Individual income tax to be paid is calculated based on the amount of chargeable income
  = total annual income – tax exemption – tax relief

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TOTAL ANNUAL INCOME

- Total annual income includes all forms of wages, salaries, bonuses, dividends, interest, rentals, royalties, premiums and so on
- However, not all the income received from the employer is taxable, for example, petrol or transport allowance, employer's subsidies such as housing and car subsidies, medical benefits, Elaun Bantuan Sara Hidup (COLA) and keraian

TAX EXEMPTION

- Tax exemption refers to all personal expenses in the forms of gifts, donations, contributions to government or various organisations, for example state libraries and healthcare organisations
- These expenses may be tax exempted but are subjected to certain limits in amount. These tax exemptions aim to promote developments in cultural and arts as well as in cultivating a caring society

TAX RELIEF

- Tax reliefs refer to items or expenses, which are not taxed, for the benefit of the individual or family members, for example Employees' Provident Fund (EPF), medical treatment and education fees
- Items of tax relief depend on the policy set by the government and may change from year to year

INCOME TAX

- After obtaining chargeable income, income tax can be determined by referring to tax rates table
- Tax rates are fixed by the government and may vary based on the government policy on the annual budget

TAX REBATE

- Tax rebate is given to reduce tax to be paid
- There are 2 types of tax rebate, namely:
    - Tax rebate of RM400 will be given to taxpayer if the chargeable income does not exceed RM35 000, subject to change.
    - The amount of zakat or fitrah paid by Muslim citizens.

MONTHLY TAX DEDUCTION

- Monthly Tax Deduction (Potongan Cukai Bulanan, PCB) is salary deduction of an employee for income tax payment of current year
- The deduction amount is based on the table of monthly tax deduction or PCB computational calculation method provided by Inland Revenue Board (IRB)

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- Taxpayers should make comparison between total amount of PCB deducted and tax payable:
  - Tax payable > PCB

    Tax – PCB = Insufficient tax payment

    Insufficient tax payment must be made to IRB
  - Tax payable < PCB

    PCB – Tax = Excess deduction

    Excess deduction of PCB will be refunded by IRB to taxpayer's bank account

JOINT TAX ASSESSMENT AND SEPARATE TAX ASSESSMENT

- For married individuals, income tax assessment system allows assessment to be done based on either one of the following assessments

JOINT TAX ASSESSMENT

- Tax assessment filed by husband (or wife)
- Wife's income (or husband's income) is aggregated with husband's (or wife's) when filing tax assessment.

SEPARATE TAX ASSESSMENT

- Husband and wife each file their own tax assessment

CALCULATE ROAD TAX

- Road tax is levied based on the engine capacity of the vehicle used by the owner
- Normally, road tax will be higher for a vehicle with a higher engine capacity

CALCULATE PROPERTY ASSESSMENT TAX

- Property assessment tax rate is set by local authority based on location and type of property
- The amount of tax payable each year depends on the tax rate charged on the annual value.
- Property assessment tax = property assessment tax rate × annual value
- Annual value (or annual assessment) is a reasonable gross estimation of annual rental that is expected to be obtained in a year from a property, if it is rented out.

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CALCULATE QUIT RENT

- Quit rent rate is fixed by the state government based on location, size and type of land
- The amount of tax payable each year depends on the quit rent rate per unit area on the total land area owned
- Quit rent = quit rent rate per unit area × total land area

CALCULATE SALES AND SERVICE TAX

- Sales tax rates on goods are different, which is 5%, 10% or other rates depending on the goods, while service tax rate is 6%.
- Service tax on each credit card is RM25 per year.

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